



# STARTING OUT

Anna Saprykina on how to calculate the start-up costs for your business



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Starting your own practice or salon is an exciting thing, but it is a challenging one as well. You are now responsible for everything at the same time – clients, suppliers, employees, contractors, the list goes on...

In our discussion last month, we talked about the first practical step towards launching your salon or clinic – finding the right premises. Today's discussion is about the estimation of the initial capital or start-up costs, that is how much money you will need to keep your business going until it starts generating money.

Start-up capital is the money needed to begin your business. It is the funding that will help you pay for equipment, rent, supplies, etc. for the first six to 12 months or so of operation and would include everything essential for the development and launch of your business.

If you are borrowing money to start your business, make sure you know how much you will need, and then how you will apply those funds. Being as specific as possible with the plans for the money will increase the likelihood that your business will get financed. It is an essential part of your business plan, which is likely to undergo lots of adjustments as you go along. In other words, figuring out your start-up costs means regularly reviewing your assumptions and changing your initial business model.

Writing a business plan is good because it forces you to write down literally everything you are going to need to start your business – legal help, tax help, office supplies, equipment, postage, office space, salaries, insurance, and so on. But that initial plan is likely to change repeatedly as you learn new things and incorporate them into your business plan. We will discuss business plan writing in one of our next articles.

They say that many businesses fail during their first year. The most common reason is lack of cash due to overly optimistic expense/income forecasts and unnecessary spending. Even if you do not have a business or finance

background, you must feel comfortable enough to make a reasonable judgment about your cash abilities while projecting your cash flow to open the doors for your business and to keep it floating during the first six to 12 months.

## WHERE WILL YOUR MONEY GO?

Some of your expenses will be one-off, others will be fixed. One-off expenses will relate to the part of your calculations on the initial capital. It would help to draw up a spreadsheet to see how you can budget for the one-off expenses as well as for the fixed costs. An excel spreadsheet is a simple tool that you can use for your calculations.

### Your main one-off expenses:

- Company registration fees
- Website registration and design
- Design of the company logo
- Licenses
- Fitting costs
- Furniture
- Rent deposit
- Equipment
- Training
- Legal expenses
- One-off marketing expenses (company sign boards, door signs, etc)

### The main type of fixed expenses will be:

- Salaries
- Utilities (phones, electric, internet/communications, etc.)
- Rent
- Marketing and sales-related costs
- Supplies
- Maintenance
- Insurance
- Taxes

Make sure you allow enough money for the true expenses associated with running your practice for the first year of operation – and don't forget to pay yourself! Make sure you have also planned for more employees, marketing and miscellaneous needs. Realistically estimate your financial needs and leave room for the unexpected, or you may unexpectedly be out of business.

## 12-MONTH PROFIT AND LOSS PROJECTION

Many business owners think of the 12-month profit and loss projection as the centerpiece of their plan. This is where you put it all together in numbers and get an idea of what it will take to make a profit and be successful.

The distinction between profit and cash flow is a common cause of confusion. The profit and loss (P&L) as such is not concerned with cash flow. The function of P&L is to identify the total revenue earned and the total costs incurred over a certain accounting period – whether the business is going in profit or loss. Your sales projections will come from a sales forecast in which you estimate sales, cost of goods sold (in your case, cost of treatments and products sold), expenses, and profit month-by-month for one year. It helps to accompany your profit projection with a list of the major assumptions used to estimate company's income and expenses. There are a number of

- cut expenses, take out a loan or get rid of some stock by launching a discounted sales campaign.

- There is no great deception to preparing it: the cash-flow outcrop is just an onward look at you checking the account. For each item, determine when you actually expect to receive cash (for sales) or when you will really have to write a cheque.

- You should track necessary operating data, which is not unavoidably part of cash flow but allows you to track items that have a heavy impact on cash flow, such as sales and inventory purchases. You should also track cash outlays prior to opening in a pre-start-up column. You should have already researched those for your start-up expenses plan.

- Your cash flow will show you whether your working capital is adequate. Clearly, if your projected cash balance ever goes negative, you will need more start-up capital. This plan will also predict just when and how much you will need to borrow or to inject some of your own money.
- Clarify your major assumptions – especially those that make the cash flow differ from the P&L projection.
- For instance, if your client wants to buy a course of treatments, when do you actually collect the cash – is he/she going to pay every time he gets a treatment or pay

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case studies available through various business sources on how to make those projections in three scenarios: realistic, worst-case, and best-case. The worst-case scenario will likely be the one that you will use to estimate how much money you will need to get your business idea financed. The realistic scenario will be useful to pitch your business idea to the potential investors. The best-case scenario will help you 'plan for success'. The latter is a separate topic for discussion, and we will talk about it some other time.

## PROJECTED CASH FLOW

If the profit outcrop is the heart of your business plan, cash flow is the blood. The cash flow statement shows the exact position of liquidity in a firm – how much cash is incorporated in business and how much is expensed over various heads during the financial year. Every part of your business plan is important, but none of it means a thing if you run out of cash. Businesses fail because they cannot pay their bills.

The point of cash flow projection is to plan how much you need before start up, from beginning expenses to operating expenses. You should keep updating it and using it afterwards. It will enable you to foresee shortages in time to do something about them - you may need to

- for the entire course up front? When you buy cosmetic products materials, do you pay in advance or much later? How will this shape your cash flow?

## FACTOR IN THE TIME TO GET YOUR START-UP BUSINESS OFF THE GROUND

- One critical component of getting an accurate start-up cost estimate is to determine the length of time it is going to take you to open your start-up business. It might be very different if you're opening a salon/clinic versus an eBay business.

- You have to take into account everything you will spend, from the moment you dig in to the start-up process, through the time you are ready to sell a product or a treatment. If you need three months from the time you sign a lease to the time you can put the 'open' sign up, calculate how much money you will need for salaries, electricity, rent or your mortgage/lease payment during those three months.

- Cash flow projection is the most powerful tool in cash management. It enables you to see the cash flowing in and out of your business so that you can plan for surpluses as well as deficits.

